

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Peru

## Sugar Annual

## Annual

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**Report Highlights:**

Cane sugar production for CY2011 is estimated at 1.145 MMT, up from 1.016 MMT in CY2010. Peruvian sugar exports in CY 2011 are estimated at 100,000 MT. Post expects that Peru will become self sufficient within the next three years.

## Executive Summary:

Cane sugar production for CY2011 is estimated at 1.145 MMT, up from 1.016 MMT in CY2010. During the first 4 months of CY2010, several factors contributed to the significant reduction of Peru's sugar production, reducing stocks to 30 percent of the Peruvian monthly requirements which pushed prices in the local market up to \$750 per MT. Peruvian sugar exports in CY 2011 are estimated at 100,000 MT. Post expects that Peru will become self sufficient in the next three years.

### Commodities:

Select

**Production:**

Sugar Cane for Centrifugal Peru	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Jan 2009		Market Year Begin: Jan 2010		Market Year Begin: Jan 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	82	82	84	84		84
Area Harvested	78	77	80	80		80
Production	10,050	9,960	10,100	10,150		10,200
Total Supply	10,050	9,960	10,100	10,150		10,200
Utilization for Sugar	10,050	9,960	10,050	10,110		10,150
Utilizatn for Alcohol	0	0	50	40		50
Total Utilization	10,050	9,960	10,100	10,150		10,200
1000 HA, 1000 MT						

[illegible]

Import Trade Matrix	
Country	Peru
Commodity	Sugar, Centrifugal
Time Period	CY 2010
Imports from:	
U.S.	0
Others	
Colombia	88,490
Bolivia	56,312
Brazil	31,069
Bolivia	17,199
Total for Others	193,070
Others not Listed	3,135
Grand Total	196,205

Units: Metric Tons

Cane sugar production for CY2011 is estimated at 1.145 MMT, up from 1.016 MMT in CY2010. This 13 percent increase is explained by favorable weather conditions, sufficient water supply and investments in new plantations. Post believes that Peru's sugar production will continue to increase in the foreseeable future due to ongoing investment in renewing fields, new plantations, and more efficient processing plants. Peru's sugar production will continue to grow, becoming self sufficient in about three years.

During the first months of CY2010, three factors coincided to reduce sugar production significantly: 1) mills stopped simultaneously for maintenance; 2) there was a major fire in the largest mill; and 3) several strikes halted production. By the end of April Peru's sugar stock was only 30 percent of its monthly requirements which triggered speculation and boosted local sugar prices to \$750 per MT (wholesale price) when international prices were about \$350 per MT (contract N°11).

Sugar cane production is forecast at 10.2 MMT in CY 2011. Sugar mills in Peru are located along the coast and have a total milling capacity of 37,000 MT of cane per day. Since sugar cane in Peru is produced year round, mills do not need to be very large. Yields and cane age vary greatly from one producer to another. Yields range from 53 to 190 MT of cane per hectare and age varies from 13 to 18 months between cuts. Average yields in CY 2010 were 126 MT per hectare.

Production costs also vary considerably, with fuel being one of the most important factors. Fuel utilization ranges from 5 to 90 gallons per metric ton of sugar produced. The Peruvian northern coast has excellent conditions for growing sugar cane due to high temperatures and lack of rain. All cultivation is surface irrigated, allowing producers to cut the supply of water at a given time to obtain higher sucrose yields. Under normal weather conditions, and provided the cane is milled on time, sucrose yields are around 12 percent.

Company	Harvested Area (Ha)		Change	
	2009	2010	Ha	%
Casa Grande	11,526	13,638	2,111	18.3%
Cartavio	11,919	12,371	452	3.8%
Tumán	9,545	10,044	499	5.2%

Paramonga	8,839	9,308	469	5.3%
Laredo	8,921	8,774	-148	-1.7%
Pucalá	7,905	8,462	557	7.0%
Pomalca	7,837	8,135	298	3.8%
San Jacinto	5,105	5,174	69	1.4%
Andahuasi	2,421	1,130	-1,291	-53.3%
Chucarapi	690	638	-53	-7.6%
<b>Total</b>	<b>74,709</b>	<b>77,673</b>	<b>2,964</b>	<b>4.0%</b>

Source: Peruvian Sugar Cane and Biofuels Producers (APPAB)

Peru's sugar industry continues its consolidation process. Coazucar, owned by Peru's largest dairy processor Gloria, owns Casa Grande, Cartavio and San Jacinto. Casa Grande has access to 30,000 hectares, but only about 18,000 hectares are under production. Casa Grande could at least double its sugar production very rapidly by both planting currently idle lands and improving yields through technological changes. Ethanol production is also an important project that investors are evaluating.

The Peruvian northern coast continues undergoing an economic improvement process driven by private investment. Land is being purchased by Peruvian and foreign investors, and property is being consolidated. The efficiency brought about by economies of scale is improving return rates, which attracts more investment, generating a beneficial cycle. It is quite common to see bulldozers flattening sand dunes to plant more sugar in the desert. This process is undoing the damage done by the catastrophic 1968 land reform that expropriated land to give to workers in socialist type cooperatives.

However there still are two mills, Pomalca and Tuman, where the government has shares and that have not been able to find a strategic partner to improve its efficiency and economic results. In an effort to encourage investment in these companies, the government is auctioning its shares to interested private sector companies. Government acquired shares were the result of a conversion of unpaid taxes.

<b>Market Distribution by Company (2009)</b>		
<b>Company</b>	<b>Market Share (%)</b>	<b>Accumulative Share (%)</b>
Casa Grande	24.37	24.37
Cartavio	15.27	39.65
Paramonga	12.75	52.40
Larego	11.50	63.90
Tuman	9.94	73.84
Pucala	9.39	83.23
Pomalca	8.47	91.70
San Jacinto	6.69	98.39
Andahuasi	1.21	99.60
Chucarapi	0.40	100.00

Source: Peruvian Sugar and Biofuels Producers Association (APPAB)

## Consumption:

Cane sugar consumption is forecast at 1.2 MMT in CY 2011, around 70 percent of which is for direct consumption and the remaining for industrial use. As the Peruvian economy improves, sugar demand will increase, especially for sugar based beverages and confectionary products.

<b>Retail Sugar Price in 2009 (U.S. \$)</b>												
	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
<b>Refined</b>	0.85	0.91	1.06	1.12	1.11	1.07	1.01	0.95	0.95	1.05	1.12	1.18
<b>Brown</b>	0.77	0.82	0.91	0.97	0.96	0.92	0.87	0.83	0.83	0.90	0.92	0.96

Source: Ministry of Agriculture

### **Trade:**

Peruvian sugar exports in CY 2011 are estimated at 100,000 MT. In CY 2010 the United States was the largest market for Peruvian sugar with 65,007 MT, followed by Russia with 25,500 MT and Colombia with 13,582 MT. The U.S. sugar tariff-rate quota (TRQ) is an important incentive for Peruvian exporters. The U.S. TRQ is distributed among the sugar mills by the Ministry of Agriculture, in coordination with the Peruvian Sugar and Biofuels Producers Association (APPAB).

Due to increased production, sugar imports in CY 2012 are forecast to fall to 140,000 MT. With a market share of 45 percent, Colombia continued to be the lead sugar exporter to Peru in CY 2010. Bolivia was also an important supplier, accounting for 29 percent of total sugar imports.

### *U.S. – Peru Trade Promotion Agreement (TPA)*

The U.S. - Peru Trade Promotion Agreement includes five-year linear tariff reductions for glucose and fructose. These reductions start at a tariff level of 17 percent and 30 percent for glucose and fructose, respectively, with duty free access in six years.

### **Policy:**

In April 2010, due to the unusual price increase of local sugar, when international sugar prices were falling, the government published a Supreme Decree declaring the sugar sector in emergency. What this means is that no sugar exports were allowed without previous clearance by the Ministry of Agriculture and making available government credit lines for importing sugar. However, no credit transaction was approved and the situation went back to normal in June.

As a result of this situation, the Ministry of Agriculture established a sugar monitoring committee (Technical Group) to “assess, evaluate and propose alternatives to improve the performance of the sugar industry”. This committee drafts a supply and demand report before approving shipments for export, including to the United States under the TRQ. The committee is formed by representatives of the Ministry of Agriculture and private sector.

Sugar import tariffs into Peru come in duty free.

